30 May, 2023

Rental affordability gap slashed; national unit rents only $39 a week cheaper than houses

Australian Unit Market Update – May 2023

By Kaytlin Ezzy, Economist at CoreLogic

Strong tenant demand for capital city unit rentals and a shortage of available listings has drastically closed the gap between median house and unit rents, with the gap dropping from $64/week to $39/week in the space of a year.

CoreLogic's monthly **Australian Unit Market Update shows** growth across capital city unit rents continues to outpace house rents, increasing 1.6% and 0.9% in April, respectively.

Domestic factors - including more Australian students returning to campus, worker rental demand in inner city areas, and the attraction of lower unit rental rates – coupled with the strong return of overseas migrants and international students, has resulted in a record 4.9% increase in unit rents for the combined capitals over the three months to April. The increase has roughly added $26 to average weekly rental values taking them to a total of $560/week.

Australia's most expensive rental market, Sydney, continues to lead the capitals, with unit rents rising 1.9% in April. This was followed by Melbourne (1.7%), Perth (1.6%), Brisbane (1.1%), Adelaide (1.0%) and Hobart (0.4%), while unit rents across Canberra held steady and fell across Darwin (-0.2%).

With the exception of Hobart and Canberra, vacancy rates across the majority of our capital cities remain near record lows and total advertised rental supply is almost 40% below the five-year average.

The continued surge in Sydney unit rents has seen a new record annual increase of 19.1%, equivalent to an extra $106/week, or almost $5,500 more a year.

CoreLogic Economist Kaytlin Ezzy said the preference for more affordable accommodation had an unfortunate negative knock-on effect with the gap between house and unit rents closing to less than $40 a week.

"There is no ignoring the fact that the mismatch between supply and demand continues to be the driving force pushing capital city rents higher," Ms Ezzy said.

"Units are the affordable option for many; new migrants, students, service workers and many other tenant types. But the increase in demand and low availability is forcing rents increasingly higher and causing the affordability gap between houses and units close rapidly."

"As the gap continues to narrow, we could see more rental demand shift towards the house sector, or as we're potentially already seeing, flow into additional purchasing demand with some prospective buyers fast-tracking their decision to become home owners."

Australian unit values rose for the second consecutive month, up 0.7% in April, taking the rolling quarterly trend to 1.2%.

Units continued to outperform houses across monthly, quarterly and annual trends, with unit values declining -4.9% for the 12 months to the end of April compared to houses, which fell -8.9% for the same period.

Sydney's unit market led the charge in April, increasing 1.2% for the month, with six of the eight capitals again recording a monthly rise in unit values. The resilience of unit values through the recent downswing has seen Adelaide units reach a new cyclical peak in value while Brisbane and Perth units are just -1.3% and -1.4% below peak.

Ms Ezzy said a continued listings shortfall has helped stabilise unit values.

"In April, national unit listings continue to be around -20% below the levels typically expected this time of year, a shortfall of around 10,000 listings. The persistent lack of listings has seen more negotiation power shift back in favour of sellers, putting upward pressure on unit values," Ms Ezzy said.

"It is likely unit values have bottomed, but there continue to be many market forces and economic considerations to keep in mind over the short term. The uptick in values and corresponding wealth effect could work to undo some of the softening in economic conditions, which could lead to further cash rate increases. If this transpires, we would anticipate a softening in values."

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Figure 1 – Rolling annual change in values, national houses and units

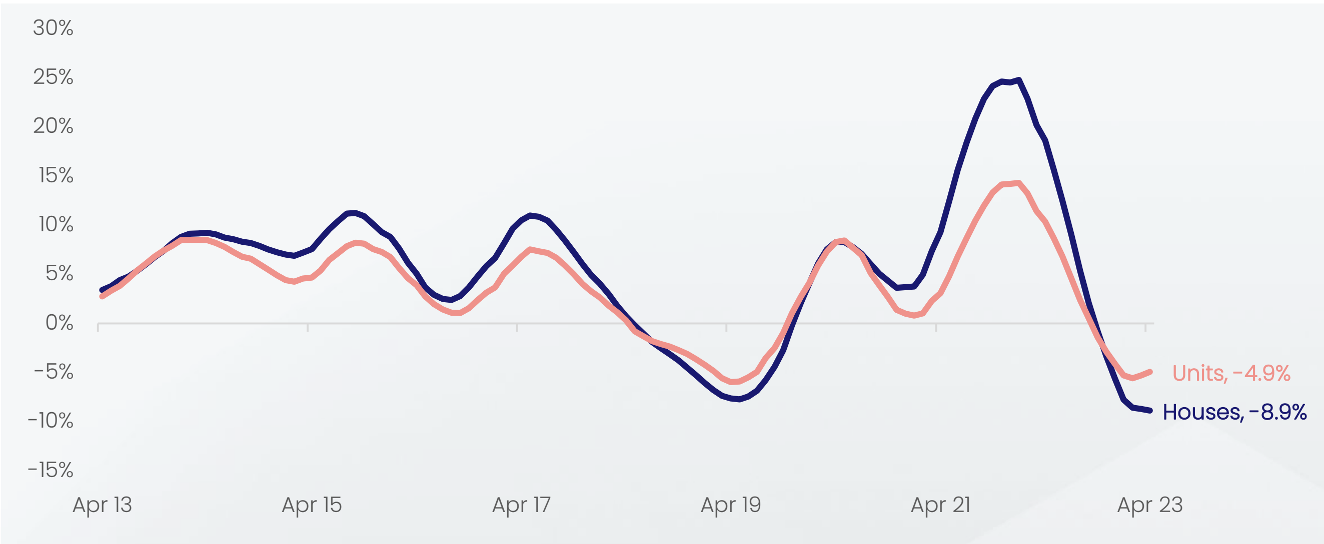

Figure 2 - Total unit listings, change from previous year and previous five-year average - 4 weeks ending 30/4/2023

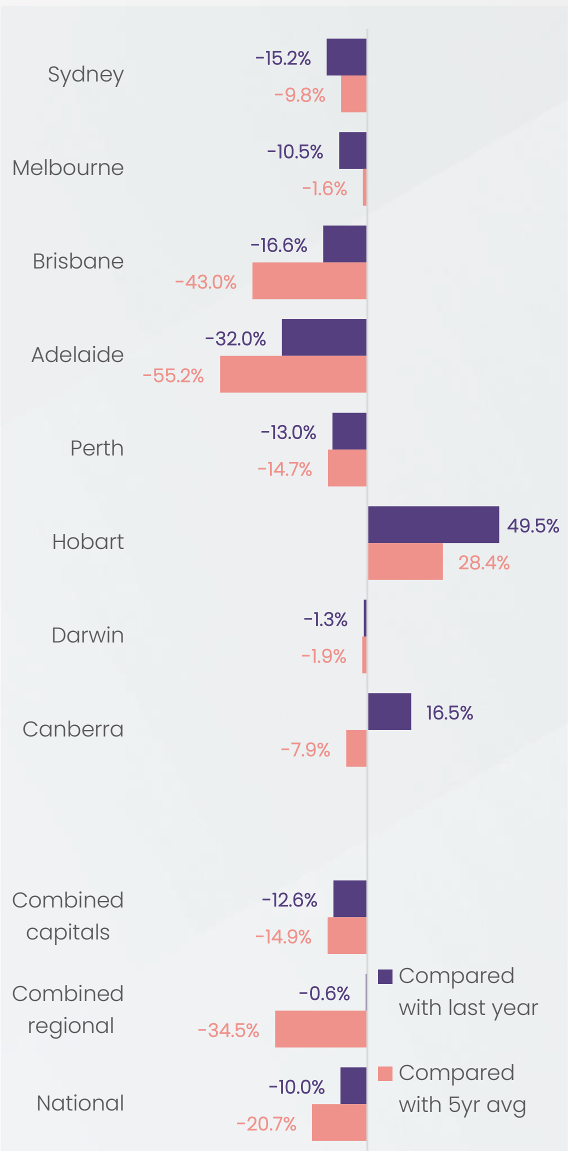

Figure 3 – Rolling quarterly growth rate - capital city units

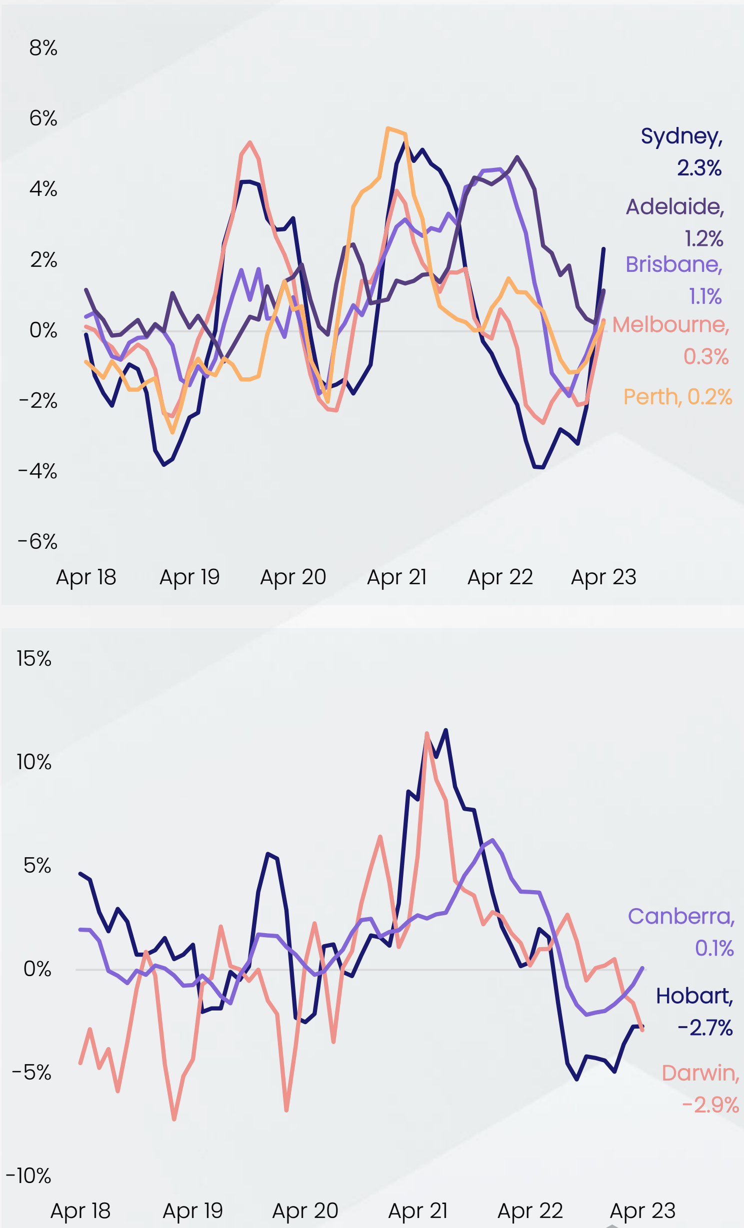

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Figure 4 – Rolling annual rental growth rate – capital city units

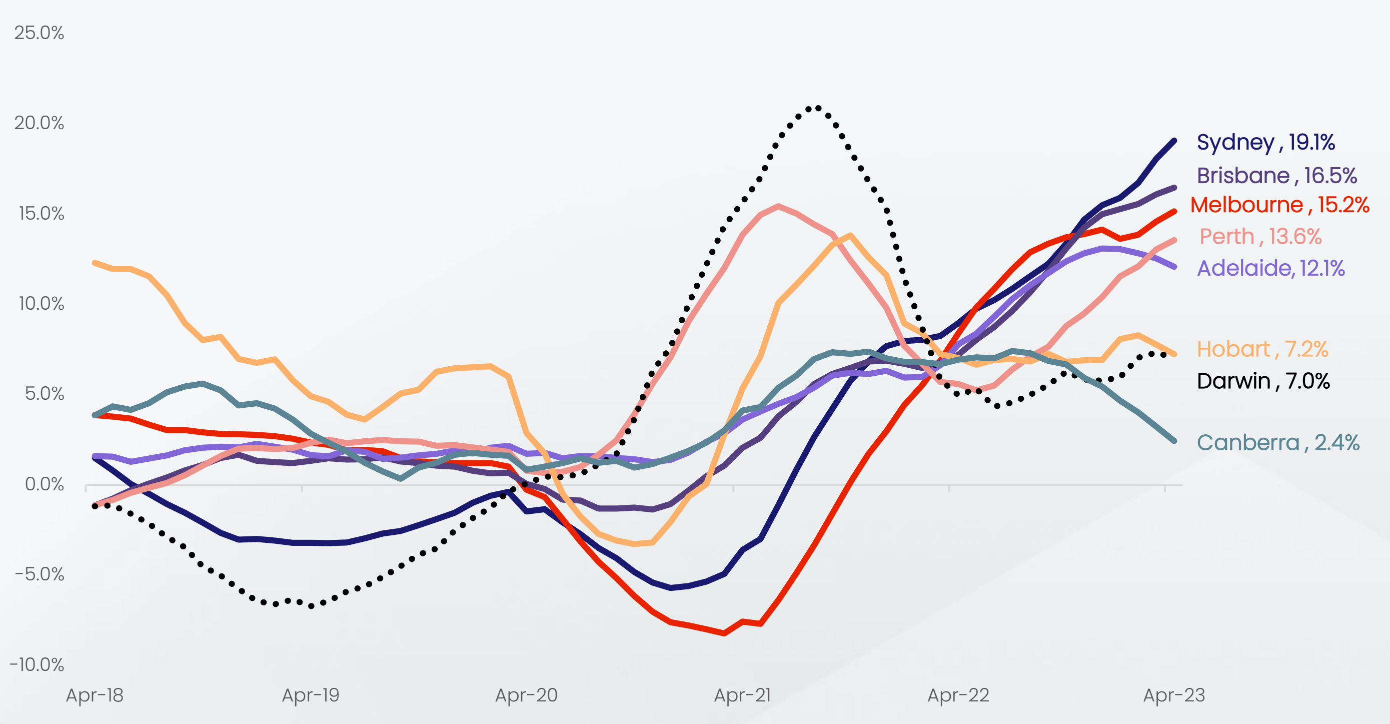

Figure 5 – Unit vacancy rates – National, combined capitals and combined regional

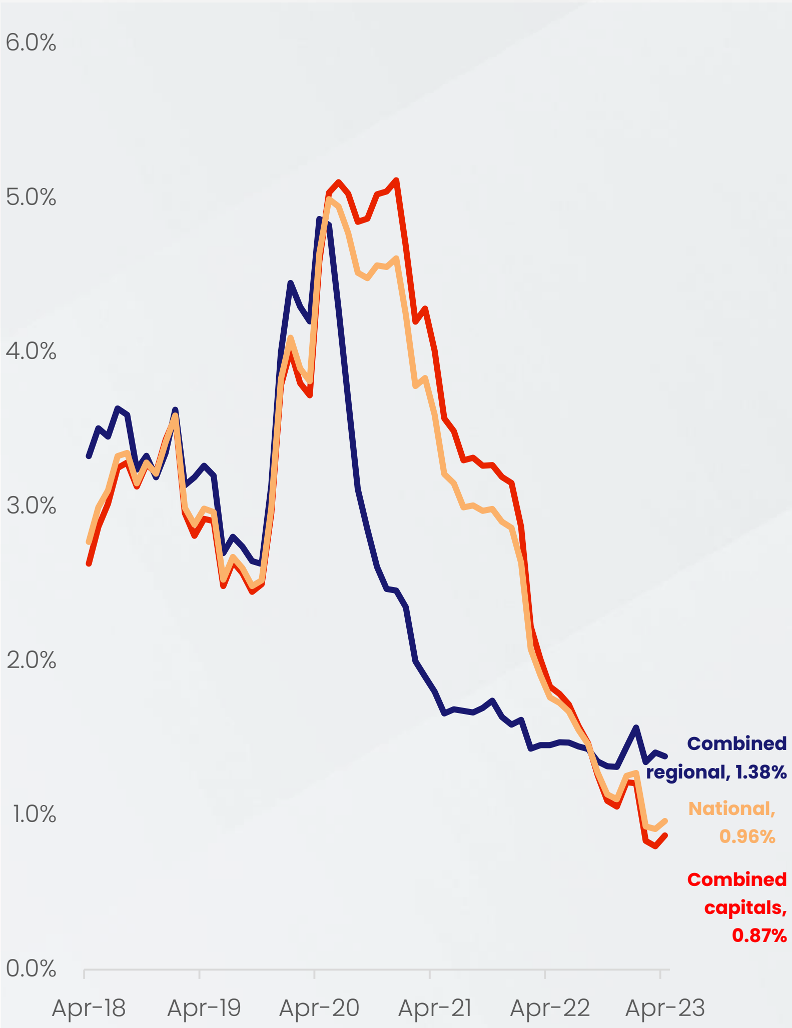

Figure 6 - Gross rental yields (units) – current vs one year prior

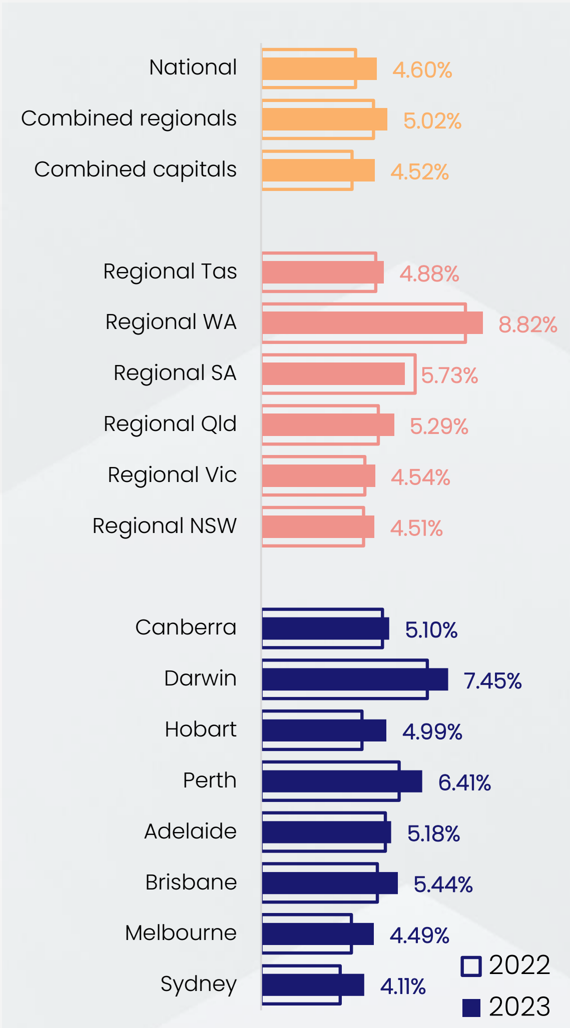

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Figure 7 – Unit performance summary table – as at end of April 2023

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Combined capitals	Combined regional	National
Values																	
Median value	$787,427	$590,473	$498,374	$444,910	$409,457	$512,428	$367,068	$603,696	$566,425	$409,563	$554,291	$278,549	$281,162	$394,883	$617,026	$509,547	$596,308
Monthly	1.2%	0.1%	0.9%	0.8%	0.1%	-1.9%	-1.8%	0.5%	0.0%	-0.8%	1.0%	1.1%	1.7%	-0.6%	0.7%	0.4%	0.7%
Quarterly	2.3%	0.3%	1.1%	1.2%	0.2%	-2.7%	-2.9%	0.1%	0.0%	0.2%	1.1%	-1.5%	3.0%	1.5%	1.4%	0.6%	1.2%
Annual	-7.2%	-5.8%	1.5%	8.8%	0.1%	-12.8%	-1.1%	-2.7%	-4.6%	-4.8%	-2.5%	4.6%	6.8%	-5.8%	-5.2%	-3.4%	-4.9%
Total return	-3.8%	-2.1%	6.7%	14.3%	5.9%	-8.8%	5.9%	2.1%	-0.4%	-0.4%	2.7%	16.5%	15.9%	-1.3%	-1.4%	1.5%	-0.9%
Rents																	
Median rents	$663	$515	$533	$447	$516	$501	$504	$586	$491	$365	$583	$303	$490	$367	$560	$494	$549
Monthly	1.9%	1.7%	1.1%	1.0%	1.6%	0.4%	-0.2%	0.0%	0.4%	0.8%	0.7%	0.8%	1.2%	-0.1%	1.6%	0.6%	1.4%
Quarterly	5.8%	5.0%	3.6%	2.9%	4.9%	2.9%	0.1%	0.6%	1.0%	2.0%	2.0%	1.2%	2.6%	0.8%	4.9%	1.6%	4.3%
Annual	19.1%	15.2%	16.5%	12.1%	13.6%	7.2%	7.0%	2.4%	5.3%	5.1%	11.1%	5.9%	15.0%	3.6%	16.2%	8.6%	14.8%
Gross yield	4.11%	4.49%	5.44%	5.18%	6.41%	4.99%	7.45%	5.10%	4.51%	4.54%	5.29%	5.73%	8.82%	4.88%	4.52%	5.02%	4.60%
Vacancy rates	1.08%	0.66%	0.70%	0.30%	0.78%	1.86%	1.27%	1.91%	1.59%	1.08%	1.26%	1.13%	1.83%	1.73%	0.87%	1.38%	0.96%

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Methodology

The CoreLogic Hedonic Home Value Index is calculated using a hedonic regression methodology that addresses the issue of compositional bias associated with median price and other measures. In simple terms, the index is calculated using recent sales data combined with information about the attributes of individual properties such as the number of bedrooms and bathrooms, land area and geographical context of the dwelling. By separating each property into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, by understanding the value associated with each attribute of a given property, this methodology can be used to estimate the value of dwellings with known characteristics for which there is no recent sales price by observing the characteristics and sales prices of other dwellings which have recently transacted. It then follows that changes in the market value of the entire residential property stock can be accurately tracked through time. The detailed methodological information can be found at:

https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, which includes transaction data for every home sale within every state and territory. CoreLogic augments this data with recent sales advice from real estate industry professionals, listings information and attribute data collected from a variety of sources.

* The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.

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